



***2010 REVIEW – MINING REVENUE***

***Commission position paper CGC 2008/10***

***SUBMISSION BY SOUTH AUSTRALIAN  
DEPARTMENT OF TREASURY AND FINANCE***

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## **SOUTH AUSTRALIAN SUBMISSION ON MINING REVENUE**

Whilst South Australia is supportive of the CGC's proposed approach for the mining revenue assessment it has some concerns about the treatment of low-grade coal and the consistency of value of production data across the States.

The Commission has proposed assessing mining revenue from State mining royalties using value of production data. It proposes separating this into energy and non-energy minerals to reflect the different royalty rates applied to these minerals.

### **Treatment of coal – separate brown coal category**

In reality, however, those minerals classified within the energy category have a wide range of royalty rates applied upon them, especially in the case of coal. The CGC's approach assumes that similar royalty rates are applied to all forms of coal irrespective of differences in quality.

The CGC paper 'Information for States following discussions, 22-23 October 2008' shows the significant differences in effective royalty rates for different forms of coal on an average basis. For example, the table showed the average effective royalty rate for domestic coal in 2006-07 was 4%, compared to 6.7% for export open-cut coal. This table, however, does not explain the underlying differences in how the royalty rates are derived to reflect differences in quality.

Coal mined in South Australia is extremely low grade and only has limited value for its energy content for heating purposes. As a result, South Australia applies an average royalty rate of approximately 3.5%. The royalty rate is derived as a proportion of gigajoules of energy which is then multiplied against the consumer price index. A similar calculation method based on the energy content is applied by Victoria on their low grade coal.

States with higher grade coal, however, tend to determine their royalty rates on a quality basis. In particular, Queensland sets a base rate of 7% of value, but applies an extra 3% to value above \$100/tonne to its high value export-grade coal. Similarly, NSW has a 3-grade royalty structure, with higher rates applied to higher quality coal.

The differences in coal types are further explained by standard mining industry classifications. The 1987 Australian Standard as 2096 classified Australian coals into two broad rank ranges. Coals were classified as higher rank if both the gross specific energy on an ash-free moist (afm) basis of 21.00 MJ/kg or greater and the gross specific energy on a dry-ash free (daf) basis of 27.00 MJ/kg or greater. The coals that did not meet both criteria were classified as lower rank.

Low rank coals have a wide range of ash, moisture and energy content which impacts on the energy available for the coal. It is difficult to directly compare low rank coals with higher rank black steaming coals due to differences in moisture content, the coal burning temperature and the influence of minerals and ash.

All South Australian coals are of lower rank. The Department of Primary Industries and Resources, South Australia has advised that the only coal mined in South Australia comes from the Leigh Creek Coalfield. The last 3 years of mining returns from the coalfield have reported the gross specific energy to be consistent around 14.5 MJ/kg. South Australian coals have no export value and can only be commercially used in local power stations specifically designed to burn them.

A comparison between the States' thermal coal resources detailed in the table below shows that South Australian low rank coals have approximately half the specific energy when compared to Queensland and New South Wales high rank thermal coals. As there are many coalfields in NSW and Queensland, the specific energy values for thermal coals vary between coalfields and therefore a range of values is given to indicate the significant difference between the States' thermal coals.

State	As received Specific Energy MJ/kg	Comment
NSW	25 - 28	
Qld	21 - 31 with majority in the 27 - 29 range	From 28 coalfields (Queensland Coals 14 <sup>th</sup> edition)
South Australia	14.5	Leigh Creek
Victoria	6 - 10	Latrobe Valley
Western Australia	20	Collie

South Australia considers the bundling of all coal into the energy category unfairly penalises those States with low-grade coal.

South Australia is not convinced that the separation of low-grade coal would be immaterial. We note that the decision by NSW in its mini-Budget to increase its *ad valorem* charges by 1.2% for each of its three tax tiers has led to a further widening of royalty regimes and would likely cause the standard to increase. This would be to the detriment of States with low quality coal under the CGC's proposed method.

We note the CGC staff assessment (contained in the information paper prepared after the October meeting) that splitting the energy minerals in different combinations would produce only marginal overall differences in the assessment.

However, South Australia notes that the analysis was undertaken by separating out a category called 'domestic coal'. Whilst this category includes the low-quality coal from South Australia and Victoria, it does not appear to be restricted to just this. The model's results suggest it also includes some higher grade non-export coal from other States that is still of a relatively higher quality and is taxed at higher levels. As a result, the simulation results do not purely control for low grade brown coal and we do not consider them to be conclusive.

South Australia considers the CGC should alter its proposed assessment methodology and create a separate brown coal category. Importantly, the ABS produces data on a basis to support this category. Whilst this may add some minor extra complexity to the assessment, we do not consider that simplification in

this instance should be a substitute for accuracy and ensuring that material factors are taken into account in applying equalisation.

### **Value of Production data**

Whilst South Australia is comfortable with the use of value of production data we note that there are likely to be some comparability issues that the CGC will need to control for. We note that the ABS data collection that is being adopted tends to measure the value of production at the mine gate (although this depends on where the ABS sources its data). This point of valuation may adversely affect those States where mineral smelting or mining occurs at the mine site such as Olympic Dam. South Australia would like to see this issue pursued with the ABS (ie. how to ensure that production values reflect comparable stages of processing beforehand).

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